

VZCZCXRO6322  
RR RUEHCHI RUEHCN RUEHDT RUEHHM  
DE RUEHJA #1136/01 1870454  
ZNY CCCCC ZZH  
R 060454Z JUL 09  
FM AMEMBASSY JAKARTA  
TO RUEHC/SECSTATE WASHDC 2757  
INFO RUEHZA/ASSOCIATION OF SOUTHEAST ASIAN NATIONS COLL  
RUEAIIA/CIA WASHDC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 JAKARTA 001136

SIPDIS

DEPT FOR EAP/MTS  
NSC FOR J.CARTIN

E.O. 12958: DECL: 07/06/2019

TAGS: [ECON](#) [ID](#) [PGOV](#) [PREL](#)

SUBJECT: INDONESIAN PRESIDENTIAL CANDIDATES: ECONOMIC  
PLATFORMS SHAPE FUTURE POLICY OPTIONS

Classified By: Debra Juncker, reasons 1.4 (b+d)

¶1. (C) Summary: President Yudhoyono,s economic platform is the most reform-oriented, liberal agenda in a presidential election that is clouded in protectionist, anti-foreign rhetoric. Megawati,s &people,s economy8 platform includes land reform, agricultural development, and an overall protectionist bent. Kalla,s economic campaign highlights &independence,8 safeguarding Indonesian business through protectionist measures. Generalized attacks by challengers on Yudhoyono and his running mate Boediono,s &neoliberal8 policies have been a recurrent campaign theme.

While the candidates have attempted to use economic platforms to differentiate their candidacies, they have largely failed to provide comprehensive, detailed policy visions. The three candidates, economic platforms provide insights into the complex economic policy decision-making for the next administration. There are positive signs for increased infrastructure investment and further governance reform. If Yudhoyono is re-elected, economic reform will continue, although likely at a measured pace. End Summary.

Yudhoyono: &Let,s continue8 - running on SBY,s record

¶2. (SBU) President Yudhoyono has based his economic platform on his track record, demonstrated in his campaign slogan &let,s continue!8 (Lanjutkan!). Yudhoyono is pointing to his economic record over the past five years, including Indonesia,s weathering of the current economic crisis. Indonesia is one of only three countries in Asia to post positive growth figures this year. Vice presidential candidate Boediono boosts Yudhoyono,s economic credentials, having served as Central Bank governor and Coordinating Minister for Economic Affairs in the Yudhoyono administration. However, critics have assailed Boediono as &neoliberal,8 shorthand for anti-foreign rhetoric. Other critics ) including leading analyst Jusuf Wanandi ) have said Yudhoyono has not made sufficient progress in his economic reform agenda, noting that only two of the promised 14 investment law reforms were passed in the past five years.

¶3. (SBU) Yudhoyono,s economic platform is the most liberal, pro-reform agenda of the three candidates. Yudhoyono and Boediono have outlined investing in infrastructure, improving governance reform, and increasing legal and regulatory certainty as top priorities. Yudhoyono has said that his administration can achieve economic growth of 7%, the most realistic of the three candidates. Kalla has said that he can deliver 8% growth while Megawati has promised growth as high as 10%. Yudhoyono and Boediono also stress their commitment to pro-poor policies, highlighting current administration programs such as the cash transfer program

(BLT) and community development assistance (PNPM). Government poverty data released recently showed a continued gradual decline in the poverty rate, now at 14.2% compared to 16.7% in 2004. Opponents, however, have questioned whether these statistics reflect a real improvement in poverty reduction or stem from recent government cash transfers.

14. (SBU) Yudhoyono,s economic team in a future administration would reflect his current economic team,s thinking. His campaign economic team is composed of younger economic ministry senior advisors, such as Chatib Basri, Raden Pardede, and Mohamad Ikhsan. President Yudhoyono has said that he will nominate current Finance Minister and Coordinating Minister for Economic Affairs Sri Mulyani Indrawati as one of two candidates for the now vacant Central Bank governor post. If selected, the Cabinet,s top reformer would end up in a position less able to influence overall government reform. Some analysts are concerned that this move along with a less prominent economic team could present challenges for Yudhoyono,s ability to implement reforms. However, Boediono could lead an economic reform strategy from the vice presidency.

Megawati: people,s economy with strong government role  
-----

15. (SBU) Megawati,s &people,s economy8 platform proposes the strongest role for government intervention. Megawati,s protectionist economic policies are reinforced by running mate Prabowo Subianto,s populist rhetoric, including calls for debt rescheduling. The Megawati campaign is highlighting increasing inequality, urban-rural disparities, and

JAKARTA 00001136 002 OF 002

Java-outer island divides during the Yudhoyono administration. The &people,s economy8 platform focuses on developing the informal sector, increasing agricultural productivity, and implementing a bottom-up approach to economic development. Employment generation and increasing productivity are common campaign messages for economic policy. Megawati,s economic plan includes agricultural programs that would divide up 2 million hectares of land into farming plots to create 12 million jobs.

16. (SBU) Policies under a Megawati administration would be more pragmatic and less ideological than the protectionist, populist campaign rhetoric, according to Megawati campaign economic advisors. The Megawati campaign highlights infrastructure development as a top priority, a common theme from all candidates. Government programs and policies to promote the development of more &value-added8 processes in the country - from the energy sector (e.g., coal) to other natural resources used to make furniture (e.g., rattan) ) are a priority. Megawati and economic advisors have publicly said that a Megawati-Prabowo administration would re-evaluate the investment law, but have provided few details on what they would change.

Kalla: protecting Indonesian businessmen  
-----

17. (SBU) Kalla economic policy advisors frame Kalla as the middle road between the market-oriented Yudhoyono and government intervention-oriented Megawati. The Kalla economic strategy focuses on stability as a source of growth. Five top issues on the Kalla economic platform are: strengthening small and medium enterprises, increasing labor productivity in agriculture and manufacturing, developing a more domestic-focused energy policy, agriculture reform, and infrastructure development. On foreign investment, Kalla says he will encourage investment, but focus on policies that benefit Indonesian businesses.

18. (C) Kalla has said publicly that he will reform the labor law. Indonesian Employers, Association (APINDO) head Sofyan Wanandi is supporting Kalla and would likely encourage Kalla

to address at least some parts of the labor law. However, Kalla economic advisors have said that the labor law would be one of the last reforms that a Kalla administration would address. Based on his vice presidential record, Kalla is likely to support protectionist policies that benefit Indonesian businesses to the detriment of foreign investors. Kalla has in the past thwarted the governance reform needed to bolster legal and regulatory certainty and improve the investment climate. A Kalla economic team would likely feature many businessmen and state-owned enterprises leaders who currently are advising his campaign.

Economic reforms: continuing at a moderate pace  
-----

19. (C) Indonesia has managed the current global financial and economic crisis well ) third best growth rate in Asia (and the G-20) in the first quarter of 2009. Economic policy options will remain limited for the next president, however, due to fiscal constraints and shifting coalitions in Parliament. Parliamentary coalitions will determine the pace of reform. If re-elected, President Yudhoyono will have to rely on a Parliamentary coalition to govern that will likely include a wide range of outlooks on economic reform. At present, the Democrat Party is aligned with the four Islamic parties (PKS, PAN, PKB, and PPP). The Islamic parties will support institutional reforms (e.g., anti-corruption reform, governance reform), but will likely not support market-based reforms (e.g., labor law, investment law revisions), according to political analyst Kevin O'Rourke. The labor law ) widely cited as a top barrier for foreign direct investment ) is nonetheless unlikely to be a top priority for the next administration. The anti-foreign, anti-neoliberal rhetoric that has shaped the campaign,s economic policy discussions reflects broader trends in Indonesian economic thinking, but is also exacerbated by the global financial crisis. The intensity of the protectionist, inward-looking sentiments will continue to shape the economic policy decision-making environment for the next administration.  
HUME